Ermes Monaco

From: Ermes Monaco
Sent: May-06-19 3:59 PM
To: Ermes Monaco
Subject: VALUED CLIENT MAIL LIST: Approaching mid-year DRAFT

HollisWealth

MonacoCapitalManagement

I HEAR THE MUSIC BUT WHERE'S THE PARTY?

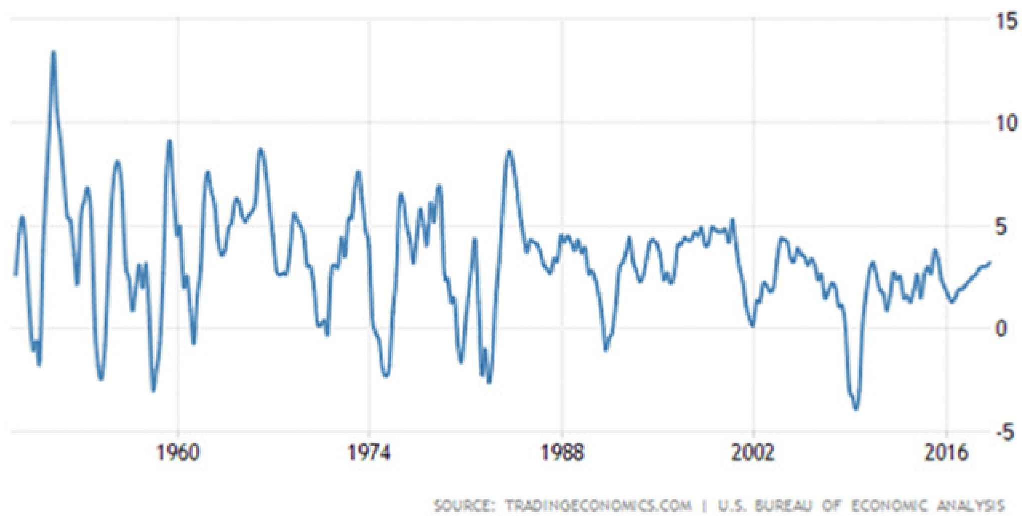
Source: Google Images

Much is currently being said in the business media about a strong recovery occurring in the U.S.. In response to the latest employment numbers reported, the President tweeted "JOBS JOBS JOBS" (@realDonaldTrump, May 3/19). If the U.S. is the economic engine to the world, this should be translating to prosperity globally.

However, at the risk of being a party spoiler, I'm compelled to continue to point out the pace of U.S. GDP growth remains modest relative to previous strong economic cycles. Because of this, young people are struggling to establish careers and purchase their first homes while older, displaced workers are having to accept employment at lower wages, reducing their consumer power. Overall, personal debt levels remain a concern for the central banks.

Current evidence of Modest Growth:

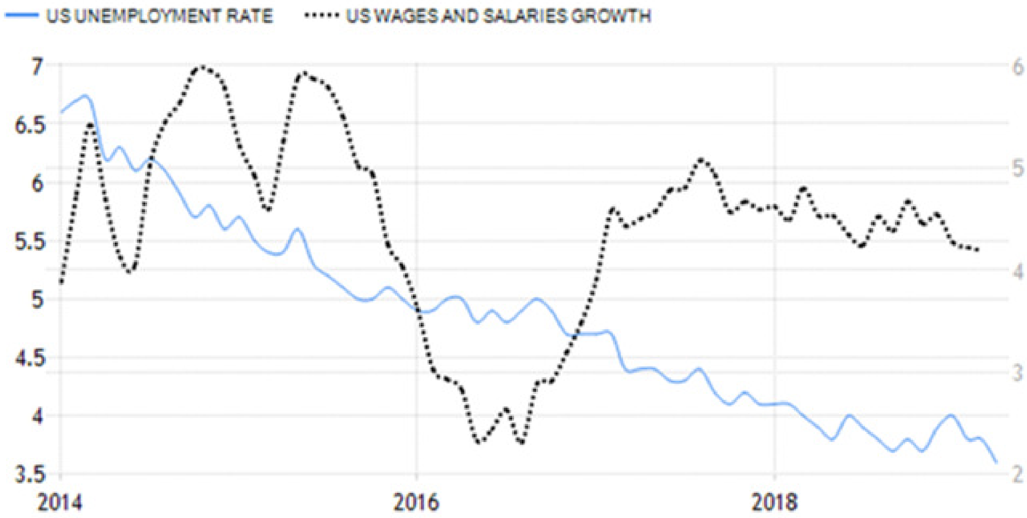
Historical Performance of U.S. GDP



In fact, with the exception of the immediate post-recession recovery, GDP has been performing within a narrow range of 1 to not quite 4% despite the reported stimuli of tax cuts, easing of regulations and tariffs.

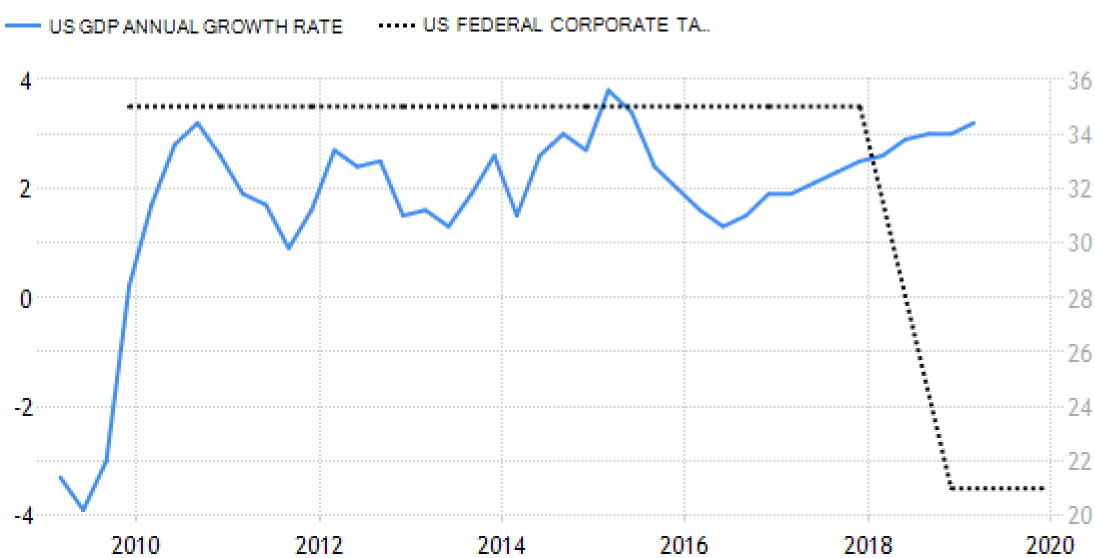
Source: Tradingeconomics.com

The underlying economic reality is that current prosperity is not been broadly based; any trickle down economic effect has not been sufficient to increase labour growth which remains static and modestly declining. This accounts for persistent personal debt and muted inflation.



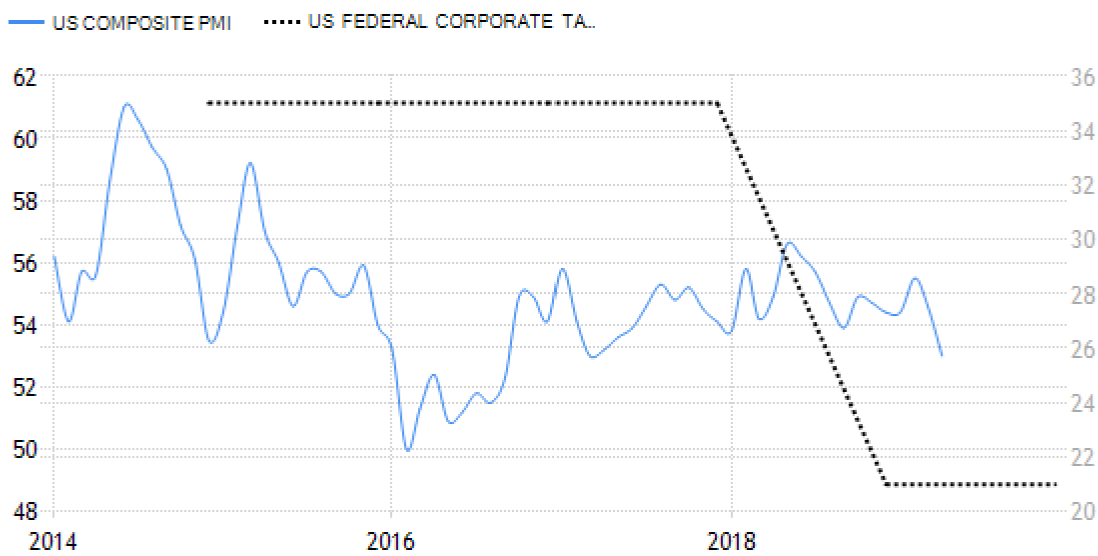
Source: Tradingeconomics.com

In fact, neither has the much touted corporate tax cut produced great economic momentum as GDP continues to move within its most recent historical range.



Source: Tradingeconomics.com

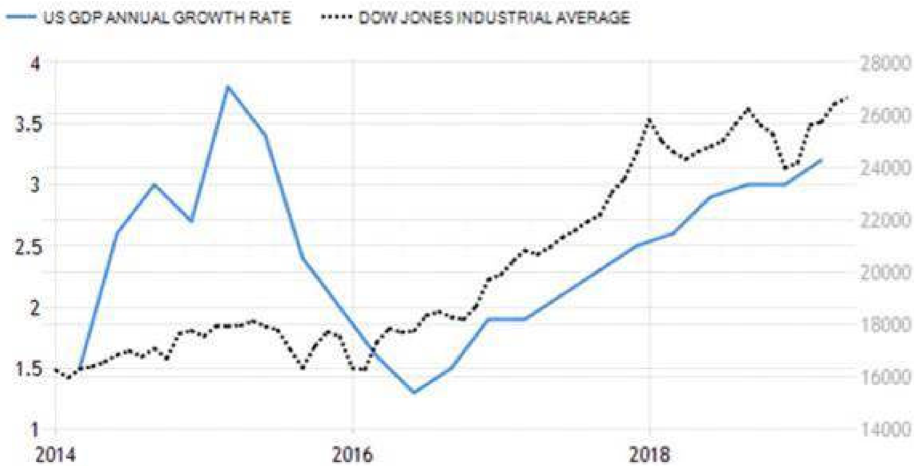
Further evidence that the economy has not responded to the lower corporate tax rate is the U.S. Purchasing Managers Index, which measures the activity and outlook of industrial trends.

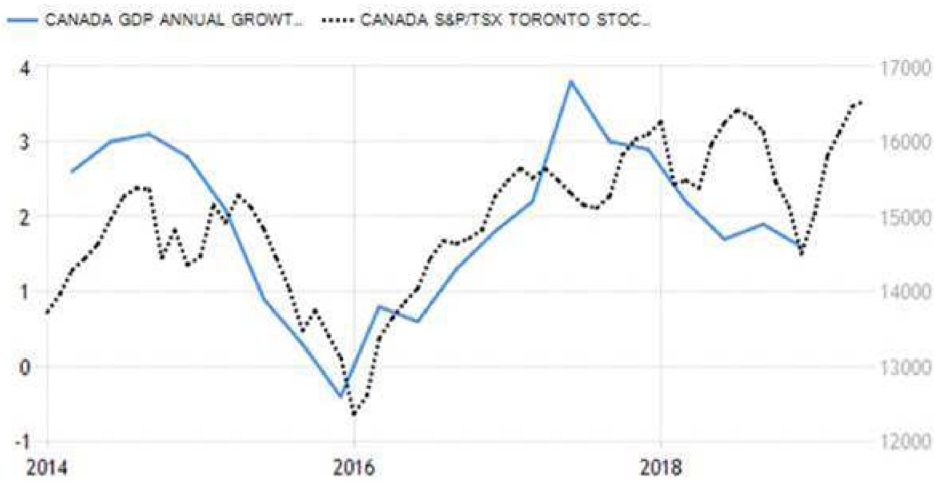


Source: Tradingeconomics.com

Then where is the prosperity?

We see evidence of the tax benefits at the corporate level being substantially retained rather than re-invested. Much of this has been re-deployed for corporate share buybacks which has increased stock market values despite the lack of a commensurate earnings expansion. This is not something the average consumer is able to emulate. In reality, it is not really organic growth but inflated market valuation which has been financed through increased national debt currently standing at -$US 22.3 trillion and growing (www.usdebtclock.org). The risk to investors is that stock market values are outpacing underlying economic strength which underlines the risk of a correction or recession.





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WHAT ARE THE TAKEAWAYS?

- **Economic growth continues to be positive but at its current moderate pace.**
- **True economic expansion is being hampered by the current trades wars which are restricting the global flow of capital and goods required for economic expansion. However, this could improve abruptly with a change in political direction and the next 12-18 months will be decisive in this respect.**
- **The pace of earnings growth will also be a significant variable over this time frame.**
- **Defensive measures should continue to be exercised within the portfolio management process as required.**
- **Concurrently, selective sectors should be considered as opportunistic for growth to optimize underlying understated or emerging value that exists at this time.**

Regards

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